Report

of the

Examination of

Greater La Crosse Health Plans, Inc.

Onalaska, Wisconsin

As of December 31, 1999

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 25, 2000

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

GREATER LA CROSSE HEALTH PLANS, INC.
Onalaska, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Greater La Crosse Health Plans, Inc. (the company) was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 1999, and included a review of such 2000 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Provider Contracts

Territory and Plan of Operations
Affiliated Companies
Growth of the company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The Greater La Crosse Health Plans, Inc. (GLHP), can be described as a for-profit insurer offering a group model health maintenance organization (HMO) product. Under the group model, the company contracts with a sponsoring clinic to provide primary and specialist services.

The company was incorporated on January 16, 1986, and commenced business on April 28, 1986. Prior to June 9, 1995, the company was equally owned by Skemp Clinic, Ltd. (SCL), Franciscan Health Systems, Inc. (FHS), and Wausau Service Corporation (WSC). On June 9, 1995, the Mayo Foundation purchased the assets of SCL. Pursuant to an affiliation agreement, dated as of June 30, 1995, between the Franciscan Health System (System), Mayo Foundation (Foundation), and the Franciscan Sisters of Perpetual Adoration (Sisters), the parties to the affiliation agreement agreed to affiliate and establish certain shared governance powers with respect to the System and its affiliates. The System changed its name to Franciscan Skemp Healthcare, Inc. (FSHI). On July 1, 1995, Skemp Clinic was merged into FSHI. As a result of the affiliation between FSHI and the Mayo Foundation, and the transfer of SCL's assets to FSHI, FSHI became a two-thirds owner in GLHP with the remaining one-third being owned by Wausau Service Corporation as described above. On March 2, 1998, FSHI was issued an additional 1,500 shares of stock because of its advancing funds to the corporation to increase its capital and surplus (FSHI contributed $1,000,000 to the company on December 31, 1997). As a result, FSHI had a 77.8% equity interest in the company and WSC had a 22.2% equity interest. On June 30, 1998, FSHI contributed an additional $1,000,000 to the company, of which, $421,221 was recorded as a sale of common stock, and $575,779 was recorded as a surplus note to FSHI. On December 11, 1998, FSHI was issued an additional 676 shares related to the $421,221 contribution on June 30, 1998. This resulted in a change in the equity interest percentages to 80.7% and 19.3% for FSHI and WSC, respectively. On December 31, 1998, WSC sold its remaining interest in the company to FSHI. On January 1, 1999, FSHI entered into an agreement with Mayo Group Practices, a taxable Minnesota non-profit corporation to transfer all outstanding stock in GLHP (5,176 shares) to Mayo Group Practices. A Form A was filed with OCI to allow the transfer of stock to Mayo Group Practices, which request was subsequently approved and the shares were, in fact, so transferred.

The company provides care to its members through a network of 200 primary care providers and 100 specialty care providers. Since GLHP is primarily a group model HMO, the physicians are retained through contracts with clinics and IPAs. An IPA is defined by statute as…"a person, other than a hospital, clinic, or individual physician or other individual health care provider, that does the following:

(a) Contracts with a health maintenance organization, limited service health organization or preferred provider plan, as defined in s. 609.01, Wis. Stat., to provide health care services.
(b) Provides health care services primarily through health care providers who are independent contractors or who are obligated to provide the services because of membership in the entity."

The company encourages the enrollee to choose a primary care physician. All referrals to specialty care physicians are required to be preauthorized by the primary care physicians. Failure to first consult with a primary care physician, disqualifies the member from receiving benefits for services provided by the specialist.

The company currently contracts with the following IPAs and clinics:

IPAs	Clinics
Anesthesiologists Ltd.	Bland Medical Clinic
Bruce Davey, MD	Community Clinic, Alma
Dakota Pathology	Deborah Clinic
Family Medicine of Winona	Franciscan Skemp Healthcare Clinics
Winona Opthamology	Hirsch Clinic
Winona Radiology	Kickapoo Valley Medical Clinic
	Krohn Clinic
	La Farge Clinic
	Luther-Midelfort Clinics
	New Hampton Clinic
	Plainview Clinic
	Rushford Community Clinic
	Scenic Bluffs Community Health Ctr.-Elroy
	Scenic Bluffs Community Health Ctr.-Hillsboro
	Viola Health Services Center
	Wabasha Clinic
	Winona Clinic

FSHI is compensated on a capitated-fee-basis. The contract with FSHI, limits the providers' risk to the first $60,000 of charges incurred per enrollee, per year. Charges for covered services in excess of the capitation liability limit of $60,000 per enrollee, per year, are the responsibility of GLHP (Note: this $60,000 limit applies to charges for covered hospital services as well). All other network clinics are paid on 1) a discounted fee-for-service, 2) 100% of charges, or 3) the lesser of the provider fee, or 85% of usual and customary charges. FSHI and GLHP are currently in contract negotiations. The providers further agree, for Medicare Select contracts, to accept Medicare Assignment and the Part B deductible and copayments allowed by Medicare. Services covered by GLHP but not by Medicare are to be compensated on the same basis as for commercial enrollees.

At the time of the examination, there were 124 primary care providers and 79 specialist physicians at FSHI. In addition, GLHP had contracts with 76 primary care providers and 21 specialist physicians.

The contracts include hold-harmless provisions for the protection of policyholders. The agreements have terms of one year, and automatically renew for successive one-year terms, unless terminated upon 90 days' prior notice by either party.

The company contracts with 15 hospitals to provide inpatient services. Participating Franciscan Skemp Healthcare, Inc. (FSHI) system affiliates are reimbursed on a capitation basis for commercial group products and Medicare Select products. Non-FSHI affiliated hospitals are reimbursed by (a) Commercial Group Products – negotiated per diem and discounted fee-for-service basis; and (b) Medicare Select Product – Medicare Assignment and the Part B deductible and copayments allowed by Medicare for covered services. Discounted fee-for-service payments to noncapitated providers for hospital services, range from 92% to 100% of the usual and customary charges. The contracts include hold-harmless provisions for the protection of policyholders.

Contracting hospitals are as follows:

Barron Memorial Medical Center, Barron WI
Black River Falls Memorial Hospital, Black River Falls, WI
Community Memorial Hospital, Winona, MN
Franciscan Skemp Healthcare, Inc. – Arcadia Campus Medical Center
Franciscan Skemp Healthcare, Inc. – La Crosse Campus Medical Center
Franciscan Skemp Healthcare, Inc. – Sparta Campus Medical Center
Luther Midelfort – Eau Claire Campus Medical Center
Methodist Hospital, Rochester, MN
Prairie du Chien Memorial Hospital, Prairie du Chien, WI
St. Elizabeth's Hospital, Wabasha, WI
St. Joseph's Memorial Hospital, Hillsboro, WI
St. Mary's Hospital, Rochester, MN
Tomah Memorial Hospital, Tomah, WI
Vernon Memorial Hospital, Viroqua, WI

Veteran's Memorial Hospital, Waukon, IA

The company's service area is comprised of the following counties: La Crosse, Buffalo, Crawford, Jackson, Monroe, Trempealeau, and Vernon.

GLHP offers comprehensive health care coverage which may be changed by riders to include deductibles and copayments. The following basic health care coverages are provided:

Physician services
Inpatient services
Outpatient services
Mental health and substance abuse services
Ambulance services
Emergency services
Maternity services
Special dental procedures (oral surgery)
Prosthetic devices and durable medical equipment
Newborn services
Home health care/hospice
Preventive health services
Family planning
Hearing exams
Diabetes treatment
Routine eye examinations
Skilled nursing facility care
Prescription drugs
Cardiac rehabilitation, physical, speech, and/or occupational therapy
Health education
Kidney disease treatment
Certain transplants
Chiropractic services

Inpatient mental health and AODA coverage is limited to 30 days, outpatient mental health, and AODA coverage is limited to 20 visits per year, emergency services have a $50.00 copayment which is waived upon admission into an inpatient facility, and skilled nursing care is limited to 60 days. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians. Members are encouraged to choose a primary care physician from the listing of participating physicians available.

The company currently markets to groups and individuals. The plan provides two group insurance products: LaCrosseCare Plus and PosOne. The plan also provides an individual Medicare Select insurance product, 65 Plus. LaCrosseCare Plus, PosOne, and 65Plus products are marketed by GLHP through independent brokers. Commissions on individual Medicare Select is 15% on new business and 7% on renewal business.

The company uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups, and, based on the review, a recommendation is made regarding adjusting the rate or canceling the group. The base rate is adjusted quarterly for inflation and other trending factors.

In addition to the products mentioned above, the company derives approximately 10% of its revenues from Wisconsin's Medicaid/Badgercare Program. The company contracts directly with the Wisconsin Dept. of Health and Family Services (DHFS), to provide specified healthcare benefits to eligible Medicaid Assistance/Badgercare recipients. In exchange for these services, the company is paid a monthly capitation rate, which is designed to be less than the cost of providing the same services covered under the contract to a comparable Medicaid population on a fee-for-service basis. Premium rates are specified by the Department of Health and Family Services.

Effective January 1, 1999, GLHP entered into a contract with UCare Minnesota for the provision of administrative services with respect to GLHP's Medicaid/Badgercare program. As compensation for services provided, UCare was paid a fixed per member per month fee for 1999. Under the terms of its contract with DHFS, GLHP remains accountable for any functions and responsibilities that it delegates to its subcontractor.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members appointed by Mayo Group Practices. Pursuant to the amended and restated by-laws five of the directors represent Minnesota entities, four represent Wisconsin entities. All directors are elected annually to serve a one-year term. Officers are appointed by Mayo Group Practices. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jasper R. Daube, M.D. Rochester, MN	Mayo Clinic Rochester Medical Director, Dept. of Managed Care	2001
Peter W. Carryer, M.D. Rochester, MN	Mayo Clinic Rochester Chair, Operations for Mayo Health System	2001
David Onsrud, D.O. La Crosse, WI	FSHI Family Practice Physician	2001
Karen L. Ytterberg Rochester, MN	Mayo Clinic Rochester Pediatrician, Community Pediatrics	2001
Robert Downs Eau Claire, WI	Luther Midelfort Mayo Health System Executive Vice President	2001
John Nemec La Crescent, MN	FSHI Vice President of New Business/Product Development	2001
Alan R. Schilmoeller Rochester, MN	Mayo Foundation for Medical Education & Research Chair, Mayo Health System Administration	2001
Shirley A. Weis Rochester, MN	Mayo Foundation for Medical Education & Research Chair, Dept. of Managed Care	2001
Vacant		

FSHI = Franciscan Skemp Healthcare, Inc.

Officers of the Company

The officers elected or appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	*2000 Salary
Jasper R. Daube	President	
Vacant	Vice President	
Mark A. Matthias	Treasurer	
Shirley A. Weis	Secretary	

*The officers are salaried employes of the affiliated companies, and receive no direct compensation for serving as officers of GLHP.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Marketing Committee
Tom Ferraro, Chair
David Onsrud, DO
James Berg
Steven Kunes
John Nemec
Shirley Weis

Finance Committee
John Nemec, Chair
Robert Downs
Julie S. Hansen
Mark Matthias
Shirley Weis

Pharmacy & Therapeutics Committee
John Johnson, R.Ph., Chair
Tom Ferraro
Steve Kunes
Beverly Larson
Dennis McCallum, Pharm. D.
David Onsrud, DO
Jonathan Rigden, MD

Quality Improvement Work Group
David Onsrud, DO
Macaran Baird, MD
Scott Blanke, MD
Karen Keil, MD
Mark Mohr, MD
Michael O'Brien, MD
Stephen Schultz, MD
Carol Rosckowff, MD
Shari Harman, FNP
John Johnson, R.Ph.
Steven Kunes
Beverly Larson, RN
Pilar Monta
Diane Ringeisen
Karol Schlosser, RN
Deb Schott, RN
Mary Wanzek, RN

Utilization & Quality Management Committee
David Onsrud, DO, Chair
Macaran Baird, MD
Kathleen Christian, MD
Greg Whiteman, MD
Joann Doby
Steve Kunes
Beverly Larson
Mary Wanzek

Grievance Committee
Steve Kunes, Chair
John Burgess
Tom Ferraro
Diane Howard
Dee Olson
David Onsrud, DO
Mary Wanzek
Karen Ytterberg, MD
Beverly Larson

Credentialing Committee
David Onsrud, DO
Macaran Baird, MD
Joann Doby
Steve Kunes
Ronald Paczkowski

Medical Director's Advisory Committee*
David Onsrud, Chair
Kathleen Christian, MD
Thomas Loepfe, MD
Mark Mohr, MD
David Nelson, MD
Michael O'Brien, MD
John Pedersen, MD
Michael Price, MD
David Rushlow, MD
Greg Whiteman, MD
Richard Preisman, MD

*The medical director's advisory committee also serves as the peer review committee.

The company has no employes. Necessary staff is provided through a purchased services agreement with Mayo Management Services, Inc. (MMSI – a wholly-owned subsidiary of Mayo Group Practices) and a management services agreement with FSHI. Under the MMSI agreement, effective January 1, 1999, MMSI agrees to provide underwriting and actuarial services, advise the board, maintain accounting and financial records, provide marketing services, and provide for claims processing and MIS. In exchange for services provided, MMSI receives a fixed per member per month service fee. The term of the agreement is automatically renewed unless terminated by either party upon 60 days' written notice. Services of a medical director, administrative nurses, referral coordinators, and an administrative assistant are furnished through a contract with Franciscan Skemp Healthcare, Inc., and are charged to GLHP according to a management service agreement beween GLHP and FSHI effective July 1, 1995, and signed July 2, 1998.

Insolvency Protection for Policyholders

Under s. Ins 3.50, Wis. Adm. Code, HMOs are required to provide continuation of coverage for its enrollees. These requirements are the following:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and

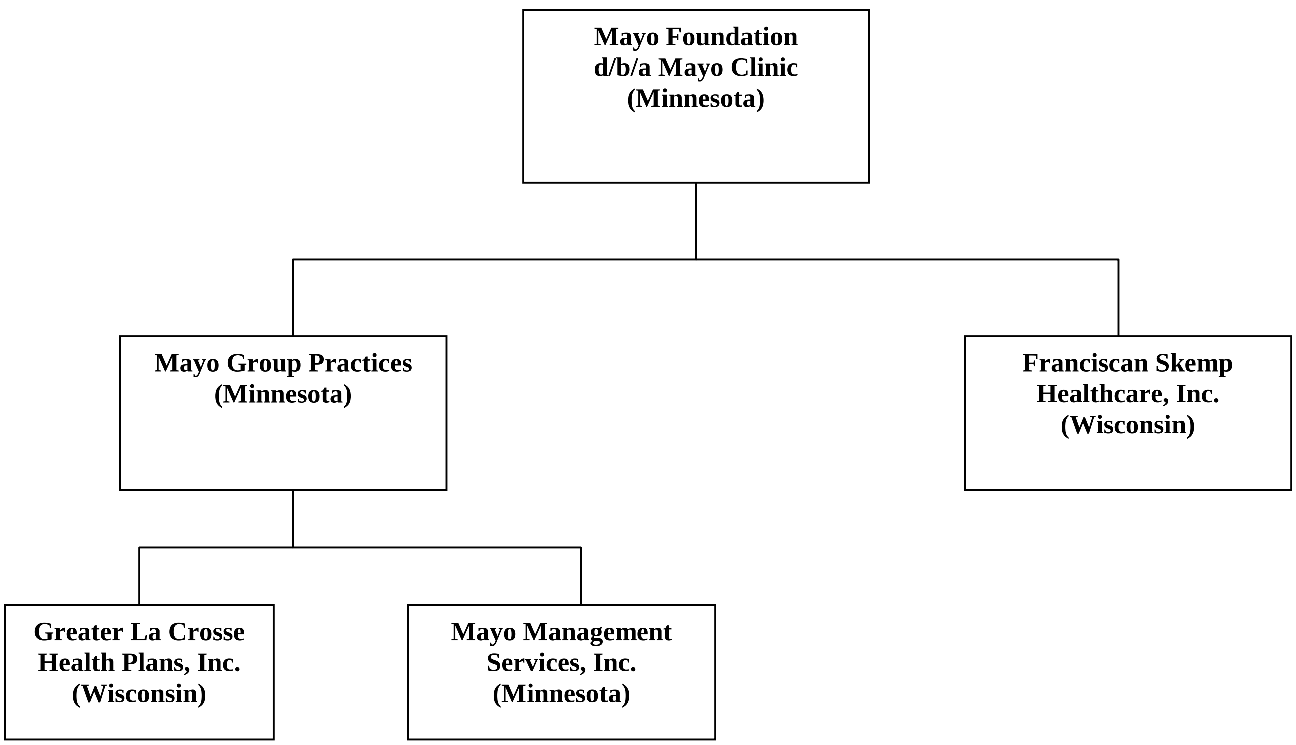
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is the Mayo Foundation. The organizational chart below depicts the relationships among the significant affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Holding Company Chart
As of December 31, 1999



Mayo Foundation

Mayo Foundation provides medical research, education, and service. As of December 31, 1999, the company's audited financial statement reported assets of $4,893,000,000, liabilities of $2,310,700,000, and capital and surplus of $2,582,300,000. Operations for 1999 produced net income of $106,100,000.

Mayo Group Practices

Mayo Group Practices provides health services. As of December 31, 1999, the company's financial statement reported assets of $575,020,768, liabilities of $504,641, and capital and surplus of $574,516,127. Operations for 1999 produced net income of $4,963,465.

Mayo Management Services, Inc.

Mayo Management Services, Inc. (MMSI), provides services as a third party administrator of health plans. As of December 31, 1999, the company's financial statement reported assets of $3,271,512, liabilities of $1,183,421, and capital and surplus of $2,088,091. Operations for 1999 produced net income of $416,529.

As mentioned in the Management & Control section of this report, the company has no employes. The company contracts with MMSI and Franciscan Skemp Healthcare, Inc. (FSHI) to provide necessary services. Under the Administrative Services Agreement with MMSI, effective January 1, 1999, MMSI has agreed to provide the company with the following services: underwriting, actuarial, board advisory, accounting/financial, marketing, claims processing, and MIS. Details concerning this agreement can be found in the Management & Control section of this report.

Franciscan Skemp Healthcare, Inc.

Franciscan Skemp Healthcare, Inc. (FSHI) provides health care services. As of December 31, 1999, the company's financial statement reported assets of $127,880,000, liabilities of $79,809,000, and capital and surplus of $48,071,000. Operations for 1999 produced a net loss of -$4,954,000.

Under the company's Management Services Agreement with FSHI, FSHI has agreed to provide to the company the following personnel services: medical director, administrative nurses, referral coordinators, and administrative assistant. Details concerning this agreement can be found in the Management & Control section of this report.

In addition to the Management Services Agreement, GLHP also contracts with FSHI for the provision of healthcare services. Details concerning this contract can be found in the History and Plan of Operations section of this report.

V. REINSURANCE AND CORPORATE INSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	Combined Insurance Company of America
Type:	Specific Excess of Loss Reinsurance
Effective date:	January 1, 1999
Retention:	$120,000 per Covered Person per Agreement Period
Coverage:	Franciscan Skemp Health: the lesser of the amount paid, the Contracted rate, 85% of Billed Charges, subject to the following Per diems: $1,500 Medical/Surgical $2,500 Intensive Care Unit (ICU), Cardiology Care Unit (CCU), Neonatal Intensive Care Unit (NICU) Methodist Hospital and St. Mary's Hospital: the lesser of the amount Paid, the contracted rate, Billed Charges, subject to the following Per diems: $1,500 Medical/Surgical $2,500 ICU/CCU/NICU All Other Hospitals: the lesser of the amount paid, the contracted Rate, Billed Charges, or a $2,500 maximum average per diem per Discharge.
Premium:	Commercial: $1.23 per member per month Commercial POS: $1.31 per member per month Minimum Annual Premium: $25,000
Termination:	

The reinsurance policy has an endorsement containing the following insolvency provisions:

1. Reinsurer will continue to provide the benefits covered under the applicable Membership Services Agreement with respect to each covered person who is confined in a hospital on the insolvency date for expenses Incurred and payable by such covered person on or after such date until the earlier of: a) the covered person's discharge from the hospital; or b) the date the covered person becomes eligible for health insurance coverage or benefits under another group or blanket policy or plan or any federal, state or local governmental plan or program.

2. The reinsurer will continue the benefits for any other covered person with respect to expenses incurred for medical services or treatment by providers received after the insolvency date until the end of the

> period for which applicable premium was received by the reinsured for that covered person, prior to the insolvency date, but in no event to extend beyond the end of the calendar month in which the insolvency date occurs as long as such expenses are payable for such covered person.

In addition, the company has corporate insurance coverage under the contracts listed below:

Type of Coverage	Policy Limits
Healthcare Multi-Cover Umbrella Liability	$37,000,000
Crime	250,000

The Healthcare Multi-Cover Umbrella Liability coverage was obtained through Reliance Insurance Company which is licensed in Wisconsin. The Crime coverage was obtained from Columbia Casualty Company which is on the Commissioner's current list of approved surplus lines insurers.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 1999, annual statement to the Commissioner of Insurance. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Net Worth per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

Greater La Crosse Health Plans, Inc.
Assets, Liabilities and Net Worth
As of December 31, 1999

Current Assets:		
Cash	$2,718,952	
Short-term investments	462,326	
Premiums receivable--net	(108,328)	
Investment income receivable	88,517	
Amounts due from affiliates	575,746	
Reinsurance recoverable on paid losses	215,436	
Aggregate write-ins for current assets	25,948	
Total current assets		$ 3,978,596
Other Assets:		
Bonds	6,194,988	
Total other assets		6,194,988
Total Assets		$10,173,584
Current Liabilities:		
Accounts payable	$ 101,563	
Claims payable (reported and unreported)	3,083,899	
Unearned premiums	559,792	
Amounts due to affiliates	1,953,348	
Aggregate Write-ins for Current Liabilities	274,450	
Total liabilities		$ 5,973,052
Net Worth:		
Common stock	364,500	
Paid-in surplus	3,721,482	
Surplus notes	575,779	
Retained earnings/fund balance	(461,229)	
Total net worth		4,200,532
Total Liabilities and Net Worth		$10,173,584

Greater La Crosse Health Plans, Inc.
Statement of Revenue and Expenses
For the Year 1999

Revenues		
Premium	$37,618,226	
Net investment income	370,510	
Aggregate write-ins for other revenues	97,783	
Total revenue		$38,086,519
Medical and Hospital Expenses		
Physician services	11,636,375	
Outside referrals	11,787,524	
Inpatient	11,032,906	
Subtotal	34,456,805	
Less:		
Net reinsurance recoveries incurred	386,389	
Copayments	650,102	
COB and subrogation	375,443	
Subtotal	1,411,934	
Total medical and hospital	33,044,871	
Administrative Expenses		
Administrative expenses	4,843,046	
Total expenses		37,887,917
Net Income/(Loss)		$ 198,602

Greater La Crosse Health Plans, Inc.
Statement of Net Worth
As of December 31, 1999

Net worth, beginning of year	$4,117,630
Net income (loss)	198,602
Interest on surplus notes	(45,712)
Decrease (increase) in nonadmitted assets	(69,989)
Net worth, end of year	$4,200,531

Greater La Crosse Health Plans, Inc.
Statement of Cash Flows (Indirect Method)
As of December 31, 1999

Cash Flows From Operating Activities		
Net income (loss)		$ 198,602
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization		7,901
Change in operating assets and liabilities:		
(Increase)/Decrease in operating assets:		
Premium receivable		429,759
Due from affiliates		(575,746)
Health care receivable		4,533
Write-ins for (increase)/decrease in operating assets		(233,396)
Increase/(Decrease) in operating liabilities:		
Medical claims payable		295,680
Due to affiliates		1,887,906
Unearned premiums		34,392
Accounts payable		(647,196)
Accrued medical incentive pool		
Write-ins for decrease in operating liabilities		(148,138)
Net cash provided from (used by) operating activities		$1,254,297
Cash Flows From Investing Activities		
Receipts from investments	$ 6,440,814	
Payments for investments	(6,434,078)	
Net cash provided from (used by) investing activities		6,736
Cash Flows From Financing Activities		
Write-ins for financing activities:		
Interest on surplus note	(45,711)	
Net cash provided from (used for) financing activities		(45,711)
Net increase (decrease) in cash and cash equivalents		1,215,322
Cash and cash equivalents at beginning of year		1,503,630
Cash and Cash Equivalents at End of Year		$2,718,952

Growth of Greater La Crosse Health Plans, Inc.

Year	Assets	Liabilities	Net Worth	Premium Earned	Medical Expenses Incurred	Net Income
1999	$10,173,584	$5,973,052	$4,200,532	$37,618,226	$34,456,805	$ 198,602
1998	8,668,038	4,550,408	4,117,630	34,445,941	30,223,080	141,281
1997	6,854,058	3,853,401	3,000,657	26,685,868	28,207,205	(1,055,500)
1996	5,338,664	1,989,901	3,348,743	22,234,034	19,211,346	302,597

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
1999	22,322	373.62	3.31
1998	23,662	284.72	3.23
1997	23,134	274.47	3.13
1996	17,812	300.23	3.25

Per Member Per Month Information

	1999	1998	Percentage Change
Premiums:			
Commercial	141.64	123.52	14.7%
Medicaid	114.81	107.33	7.0
Expenses:			
Physicians services	42.79	44.43	(3.7)
Outside referrals	43.34	31.63	37.0
Inpatient	40.57	30.32	33.8
Less:			
Net Reinsurance Recoveries	(1.42)	(.37)	283.8
Copayments	(2.39)	0.00	100.0
COB and Subrogation	(1.38)	(0.93)	48.4
Total Medical	121.51	105.08	15.7
Administrative Expense	17.81	17.04	4.5
Total Expenses	$139.32	$122.12	14.1

The company's operating results have generally been profitable, with positive net income posted in 3 of the last 4 years. The company experienced a net loss of $1,055,500 in 1997, which resulted from higher capitations paid to providers (in comparison to prior years) and increases in non-capitated medical costs (prescription drugs in particular). Net Income improved to $141,281 in 1998; management asserts that the improved operating results were largely due to the company's efforts to control provider costs through the use of a Utilization and Quality Management Committee, and a Hospital Length of Stay Certification Program.

The company's net premium revenue was up 9.2% in 1999, largely due to an increase in base premium rates (due to the continued increase in the underlying cost of enrollee health benefits). During 1999, the company continued to be affected by rising medical and pharmacy costs, which resulted in a 10.7% increase in medical and hospital expenses, a 2.6% increase in net capitations incurred, and a 22.3% increase in non-capitated expenses.

Reconciliation of Net Worth per Examination

The following schedule is a reconciliation of net worth between that reported by the company and as determined by this examination:

	Increase	Decrease	
Net worth December 31, 1999, per annual statement			$4,200,531
Examination Adjustments:	**Increase**	**Decrease**	
Claims Payable	$1,700,000		
Premiums Receivable	69,989		
Net increase or (decrease)	$1,769,989	$ 0	$1,769,989
Net worth December 31, 1999, per examination			$5,970,520

Examination Reclassifications

	Debit	Credit
Allowance for Doubtful Accounts	$55,000	
Accounts Payable		$55,000
Total reclassifications	$55,000	$55,000

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Corporate Records – It is recommended that the company keep minutes of its annual and special shareholders' meetings.

   Action – Compliance

2. Conflict of Interest – It is recommended that GLHP enforce its procedures for disclosing interested party transactions and any potential conflicts of interest between GLHP and any director or officer by ensuring full completion of the Conflict of Interest questionnaire on an annual basis. It is further recommended that the company maintain a permanent record of original Conflict of Interest questionnaires completed by its officers, directors and key employes for third-party verification purposes.

   Action – Partial compliance. See comments in the Summary of Current Examination Results.

3. Management and Service Agreement – It is again recommended that GLHP prepare written management and other service agreements outlining the various services to be performed and the remuneration to be paid for all services rendered to, or by, affiliated companies.

   Action - Compliance

4. Invested Assets – It is recommended that GLHP execute a safekeeping or custodial agreement in its name, and that such an agreement include safeguards and controls recommended by the NAIC.

   Action – Partial compliance. See comments in the Summary of Current Examination Results.

5. Affiliated Providers – It is recommended that the HMO amend its contracts with affiliated providers to reflect current reimbursement terms, and risk retention level.

   Action - Compliance

6. Affiliated Company Transactions – It is again recommended that GLHP collect the amount due per the Worker's Compensation Service Agreement, the terms of the agreement be adhered to, and that future changes in the agreement be filed with OCI under ss. Ins 3.50 and 40.04, Wis. Adm. Code, and s. 611.60, Wis. Stat.

   Action – Not applicable. This agreement is no longer in effect.

7. Financial Statement – It is recommended that GLHP prepare its annual statement in accordance with the NAIC Annual Statement Instructions – Health Maintenance Organization, as required by s. Ins 50.20(1)(b), Wis. Adm. Code.

   Action – Compliance

Summary of Current Examination Results

Conflict of Interest

The Commissioner of Insurance directive dated March 9, 1989, stipulates that Wisconsin insurance companies should adopt a standard of ethics and established procedures for the annual disclosure of any material interest or affiliation which is likely to conflict with the official duties of its officers, directors, or responsible employes. The examination noted such standards and procedures are in place. However, the following exception was noted:

- The company was unable to provide Conflict of Interest Statements for 1997 and 1999.

It is again recommended that the company maintain a permanent record of original Conflict of Interest Statements completed by its officers, directors, and key employes for third-party verification purposes.

Fidelity Coverage

The company has not complied with the minimum fidelity coverage as recommended by the NAIC Financial Condition Examiners Handbook. The company's current coverage has a limit of $250,000. The minimum amount required by the company (as calculated per the guidelines set forth in the Financial Condition Examiners Handbook) was calculated to be $350,000.

It is recommended that the company increase its fidelity coverage to at least the minimum required by the NAIC Financial Condition Examiners Handbook.

Disaster Recovery Plan

The disaster recovery plan provided was limited to IT procedures. A good disaster recovery plan should also include the necessary steps, resources, and information for operational functions to recover and resume operations. Plans should be reviewed, updated, and tested annually. In addition, relevant portions of the plan should be communicated to employes.

It is recommended that the company develop a disaster recovery plan that addresses the resumption of all operations for any type of disaster. The plan should identify the procedures to be performed, key individuals and vendors to contact, alternative locations, and required supplies. In addition, for the plan to continue to be relevant, it should be reviewed, updated, and tested annually.

Annual Statement/Supplements

Schedule Y

Franciscan Skemp Healthcare was not listed on the Schedule Y, Part 1 (Organization Chart); however, it was listed on Schedule Y, Part 2 (Summary of Transactions with Affiliates). According to the NAIC Annual Statement Instructions – HMO, all company's required to file an annual registration statement, under the provisions of the domiciliary state's Insurance Holding Company System Regulatory Act, must include an Organizational Chart in Schedule Y, Part 1 of the annual statement. The chart shall present the identities of, and interrelationships between, the parent, all affiliated insurers, HMOs and other affiliates. Non-insurer affiliates must be included on Schedule Y, Part 1 (Organization Chart), if they have activities that must be reported on Schedule Y, Part 2 (Summary of Transactions with Affiliates).

It is recommended that the company include all affiliated insurers (and all non-insurer affiliates with whom the company has transactions required to be reported in Schedule Y, Part 2), on the Schedule Y, Part 1 Organization Chart in future annual statements, in accordance with the NAIC Annual Statement Instructions – HMO.

HMO Enrollment by Service Area

The HMO Enrollment by Service Area supplement did not include the enrollment for the Medicare Select and Medicaid enrollees. These enrollees should have been included within the HMO totals for each county. It is recommended that the company include the Medicare Select and Medicaid enrollees on the HMO Enrollment by Service Area worksheet in future annual statement supplements.

Invested Assets

The prior examination recommended that the company execute a safekeeping or custodial agreement with its custodian, which includes the controls and safeguards as recommended by the NAIC Financial Condition Examiners Handbook. The company currently utilizes the services of one custodian, Bankers Trust Company, and has an executed custodial agreement with that custodian. Review of the Bankers Trust Custodian Agreement revealed that the agreement does not contain the safeguards recommended by the NAIC. Specifically, the agreement should provide indemnification provisions as promulgated in the NAIC Financial Condition Examiners Handbook. It is again recommended that the company execute a safekeeping or custodial agreement which includes the controls and safeguards as recommended by the NAIC.

Premiums Receivable

The examiner's testing of premiums receivable reported at December 31, 1999, revealed that the company included $55,000 within the Allowance for Doubtful Accounts, which represents overpayments from the State of Wisconsin. GLHP was gradually repaying these overpayments through premium reductions. The examiner reclassified this balance as Accounts Payable, which more accurately reflects the true nature of this amount.

In addition to the Allowance for Doubtful Accounts, the company also had a non-admitted balance of $69,989. Per discussion with company personnel, this balance was also included within the $175,000 Allowance for Doubtful Accounts balance. An adjustment of $69,989 was made to premiums receivable (and consequently, to net worth), to eliminate the redundancy.

The reclassification, and the adjustment, are reflected in the schedule captioned Reconciliation of Net Worth Per Examination.

Claims Payable

The examiner's testing of the claims payable reported at December 31, 1999, revealed a favorable claims development in 2000 of approximately $1.7 million. The balance reported in the 1999 Annual Statement was $3.08 million, whereas actual claims paid for 1999 through June 2000 for claims incurred in 1999 was $1.35 million. An adjustment to net worth of $1.7 million is reflected in the schedule captioned Reconciliation of Net Worth per Examination. This balance will provide an adequate cushion for potential adverse development from July 2000 forward.

Surplus Note

The examiner’s review of the 1999 annual statement revealed that the company issued a surplus note to an affiliate, Franciscan Skemp Healthcare, on June 30, 1998. Per s. 611.33(2)(d), Wis. Stat.: “Payment of the principal or interest on mutual bonds or contribution notes may be made in whole or in part only after approval of the commissioner.” Review of the company’s filings and correspondence revealed that OCI had given prior approval for the first quarter 1999 interest payment; however, there was no record of prior approval given for any other interest payments. It is recommended that the company receive approval from our office prior to making any future interest payments, or principal repayments on the surplus note, in accordance with the terms of the note and s. 611.33 (2) (d), Wis. Stat.

Compulsory Surplus Requirement

Insurers are required to maintain minimum compulsory surplus, as specified in s. Ins 51.80, Wis. Adm. Code. The company's calculation as of December 31, 1999, as modified for examination adjustments is as follows:

Assets	$10,173,584	
Less:		
Special deposit	0	
Liabilities	(5,973,052)	
Examination adjustments	1,769,989	
Total		$5,970,521
Net premium earned	37,618,226	
Compulsory factor	10%	
Compulsory surplus		3,761,823
Compulsory Excess		$2,208,698

IX. CONCLUSION

Greater La Crosse Health Plans, Inc. (GLHP) is a for-profit insurer offering a group model HMO product that serves seven counties throughout Wisconsin. The company was incorporated on January 16, 1986, and commenced business on April 28,1986. GLHP is a wholly owned subsidiary of Mayo Group Practices, a Minnesota Corporation.

The company provides two group insurance products (LaCrosseCare Plus and PosOne), and one individual medicare select insurance product (65 Plus). The company also derives a small percentage of its revenues (approximately 10% in 1999) from its participation in Wisconsin's Medicaid/Badgercare program, through a contract with the Wisconsin Department of Health and Family Services.

The company's operating results have generally been profitable, with positive net income posted in 3 of the last 4 years. In addition, net premiums earned have increased by 69.2% over the four-year period since the prior exam.

The examination noted deviations from Wisconsin Statutes and NAIC guidelines. Recommendations have been made to bring the company into compliance with those statutes and guidelines.

The current examination resulted in an upward adjustment to surplus of $1,769,989, which was due to an overstatement of claims payable, and an underestimation of premiums receivable. These adjustments increased the company's surplus to $5,970,520 at year-end.

X. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Conflict of Interest—It is again recommended that the company maintain a permanent record of original Conflict of Interest Statements completed by its officers, directors, and key employes for third-party verification purposes.

2. Page 27 - Fidelity Coverage—It is recommended that the company increase its fidelity coverage to at least the minimum required by the NAIC Financial Condition Examiners Handbook.

3. Page 27 - Disaster Recover Plan – It is recommended that the company develop a disaster recovery plan that addresses the resumption of all operations for any type of disaster. The plan should identify the procedures to be performed, key individuals and vendors to contact, alternative locations, and required supplies. In addition, for the plan to continue to be relevant, it should be reviewed, updated, and tested annually.

4. Page 27 - Annual Statement/Supplements—It is recommended that the company include all affiliated insurers (and all non-insurer affiliates with whom the company has transactions required to be reported in Schedule Y, Part 2), on Schedule Y, Part 1 Organization Chart in future annual statements, in accordance with the NAIC Annual Statement Instructions - HMO.

5. Page 28 - Annual Statement/Supplements—It is recommended that the company include Medicare Select and Medicaid enrollees on the HMO Enrollment by Service Area worksheet in future annual statement supplements.

6. Page 29 - Invested Assets—It is again recommended that the company execute a safekeeping or custodial agreement which includes the controls and safeguards as recommended by the NAIC.

7. Page 30 - Surplus Note—It is recommended that the company receive approval from our office prior to any future interest payments, or principal repayments on the surplus note, in accordance with s. 611.33 (2) (d), Wis. Stat.

XI. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employes of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Karla Harris	Insurance Examiner
Randy Milquet	Insurance Examiner-Advanced

Respectfully submitted,

Kristin L. Forsberg
Examiner-in-Charge

Greater La Crosse Health Plans, Inc.